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ABSTRACT

Recommendations of the Belmont Task Force concerning the problem of student loan defaults are offered to the U.S. House of Representatives. The task force concludes that the purpose of the Guaranteed Student Loan (GSL) program has changed significantly in the last decade. While originally established as a loan of convenience for middle-income students, the GSL program has become the primary federal program for access to postsecondary education for low-income students. It was found that defaulters tend to be first-year students, from low income and minority backgrounds, with a small loan balance (90% less than $5,000) who did not complete much more than the first year, have borrowed only once, receive no or little assistance from parents in repaying, are likely to be unemployed when the loans come due, and never make a first payment. Increasing Pell grants and funding of the Student Support Services program to help retain high-risk students are recommended. The task force recommends that Congress adopt a consistent set of definitions that describe how defaults must be calculated so they can be uniformly used by all program participants. GSL program management initiatives are proposed for lender, borrowers, the Department of Education, guaranty agencies, and institutions. (SW)

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[COMMITTEE PRINT]

STAFF REPORT ON THE GUARANTEED STUDENT LOAN PROGRAM BELMONT TASK FORCE RECOMMENDATIONS

PREPARED FOR THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR

MAY 1988

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AUGUSTUS F. HAWKINS, *Chairman*

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Message

AUGUSTUS F. HAWKINS, CHAIRMAN

EDUCATION AND LABOR COMMITTEE

I commend my colleague, Congressman Pat Williams, Members of the Task Force, and staff who participated in the meetings for their fine work in producing a document which will assist the Committee in responding to the problem of student loan defaults.

In organizing the Belmont Task Force, Congressman Williams included staff members of the Committee, representatives from the higher education community, student associations, the banking community and State guaranty agencies. Task Force members were asked to review more than one hundred recommendations that had been made to the Subcommittee regarding ways to reduce defaults in the Guaranteed Student Loan Program. This final report, which contains many fine suggestions, represents the framework for developing a comprehensive response to this growing problem.

This Committee Print shows the wide-ranging discussions which were held, and points the way to some specific legislative alternatives.

BELMONT TASK FORCE RECOMMENDATIONS
Final Report
February 1, 1988

FORWARD

Recognizing that the increasing costs of student loan defaults represent a serious threat to public support for federal student financial aid, Congressman Pat Williams, Chairman of the House Subcommittee on Postsecondary Education, convened a Task Force of individuals knowledgeable about the GSL program. Represented among the members of the Task Force were lenders, guaranty agencies, institutions, students, financial aid officers, secondary markets, Congressional staff, and the Department of Education. The Belmont Task Force, which met January 12 through January 14, 1988, at the Belmont House in Elkridge, Maryland, received three tasks from the Chairman.

First, the Task Force was asked to take a closer look at the GSL program as a social program and to consider how this program has evolved since it was created. Many factors have come to affect the operation of this program...some intended and others not. And with some of these changes, have come additional costs. The Task Force was asked to determine if the costs of the GSL program still measure up, in a general sense, to the social purpose of the program.

Second, Congressman Williams asked the participants to determine what we need to know about the default problem. For example, do we know what is the true default rate? Can we quantify what the actual cost of this program is to the federal government? How much private capital would be available to students without a federal guaranty? What aspects of this program do we need to better understand in order to produce a viable solution?

Finally, the Task Force was asked to explore how the GSL program might be managed to reduce the default rate. The Subcommittee has received numerous suggestions from the community, from Members of Congress, The General Accounting Office, and the Administration. The Conferees were asked to review these recommendations and reach consensus on those that might be helpful in reducing default costs.

What follows is the response of the Task Force to the charges presented to them by Congressman Williams.

THE GUARANTEED STUDENT LOAN PROGRAM

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The purpose of the Guaranteed Student Loan Program, originally established as a loan of convenience for middle-income students, has changed significantly in the last decade, becoming the primary federal program for access to postsecondary education by low-income students.

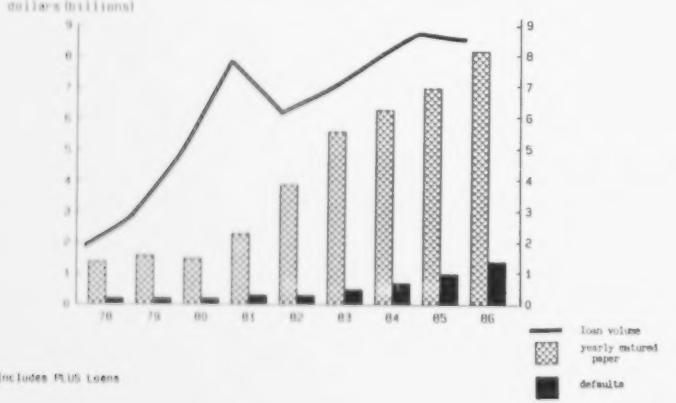
- -

The magnitude of the costs of student loan defaults has been the object of growing scrutiny by both the public and the Congress. These costs recently have been escalating dramatically, and it is estimated that approximately half (47 percent) of the FY88 Guaranteed Student Loan Program (GSL) costs of $3.4 billion will be used to pay default claims. According to the Department of Education, the $1.6 billion in FY88 default costs represents a 25 percent increase over FY87 default costs. Furthermore, as Figure 1 illustrates, there has been dramatic growth in total annual loan volume, up from $3.0 billion in 1979 to $8.6 billion in 1986, and this has resulted in large increases in loans entering repayment status and thus becoming subject to default.

It is important to place the gross default rate in perspective. Increased borrowing, particularly by low income students, results in part from the failure of appropriations for Pell Grants and title IV campus-based aid programs to maintain pace with inflation. Further, recent borrowers have come increasingly from low-income families due to the GSL needs test imposed by recent legislation. This trend is likely to continue under current policy. Existing studies indicate an inverse relationship between borrowers' income level and the propensity of the borrower to default. It is also important to note that the gross default costs cited above do not include subsequent collections through the IRS tax refund offset program and other collection programs.

While the dollar volume of defaulted student loans has grown every year, the percentage of loan volume in default has not changed greatly. Data from the Department of Education indicate that the rate of default has decreased from 10.0 percent in FY78 to 8.9 percent in FY85. Therefore, the Task Force participants note that the increases in default costs are likely due more to increases in loan volume than to increases in the default rate. Loan volume is continuing to increase and data for FY87 show an overall 7 percent increase in total loan volume between FY86 and FY87 for the GSL loan program. Because of these continued increases in loan volume and the relationship between increases in that volume and subsequent increases in default costs, the GSL program's default costs are likely to increase even more in the future.

ANNUAL GSLP LOAN VOLUME, YEARLY MATURED PAPER, AND ANNUAL DEFAULTS PAID TO LENDERS GUARANTEED STUDENT LOANS, FY78 - FY86*



* Includes PLUS loans

The GSL program, authorized by title IV of the Higher Education Act, is an entitlement program and provides three different loans: regular GSLs, Supplemental Loans for Students (SLS) and Parental Loans for Undergraduate Students (PLUS). Regular GSL's are low-interest loans originating in the private sector but subsidized by the Federal Government, and all applicants now must meet a needs test. The remaining two loans are unsubsidized and non-needs tested. Since its creation, the GSL Program has generated an estimated 35,055,000 loans and has leveraged approximately $67.7 billion in private loan capital.

No Federal funds are used for GSL loan capital, only for program and default costs. Instead, commercial and nonprofit lenders provide the loan capital in return for assurances by the Federal Government that it will guarantee the loan's repayment as long as the lenders and the guaranty agencies fulfill their loan collection responsibilities in accordance with federal regulations. Lenders do, however, receive payments from the federal government to encourage their participation in the loan program.

Pell Grants. In contrast to the GSL Program is the Pell Grant program, which was conceived as the foundation for all federal student assistance for needy students from low-income families. All students meeting certain need criteria are eligible to receive Pell Grant assistance, limited by the amount of annual appropriations made available to the program and the number of applicants eligible to receive funds under this grant program. In addition, no student may receive a grant in excess of 60 percent of the cost of education at the school the student attends.

The Pell Grant was first authorized in 1972 with enactment of the Basic Educational Opportunity Grant program. The Pell Grant program was established to assist needy students from low-income families. It was envisioned as the floor above which a student's remaining need could be met with other forms of assistance. In the original legislation the maximum Pell Grant award was $1400; because of pressures in the appropriations process, increases in the maximum award which have been authorized in the statute have not been funded, and the maximum award has not kept pace with increases in the CPI or college costs.

The Pell Grant maximum award, which will be $2200 in FY88, has increased only 26 percent since 1980 even though the CPI will have increased over 40 percent; a $2200 maximum award will cover only 29 percent of average college costs. Funding for the Pell Grant program has increased 78 percent during that period largely because of increasing numbers of very low-income students, and appropriations have not been available to increase the maximum award annually as well as fund the increase in low-income students. See Table 1.

TABLE 1

PELL GRANT: SELECTED HISTORICAL STATISTICS

FISCAL YEAR	APPROPRIATION (In 000's)	GRANTS TO RECIPIENTS (In 000's)	NUMBER OF RECIPIENTS (In 000's)	AVERAGE GRANT	VALID APPLICANTS	MAXIMUM AWARD
1973	$ 122,000	$ 47,602	176	$ 270	482,331	$ 452
1974	475,000	356,353	568	627	1,114,084	1,050
1975	840,200	925,882	1,216	761	2,178,696	1,400
1976	1,325,800	1,475,281	1,944	760	3,408,718	1,400
1977	1,903,900	1,512,620	2,028	746	3,621,641	1,400
1978	2,140,000	1,540,465	1,918	803	3,401,428	1,600
1979	2,431,000	2,357,178	2,733	862	3,868,429	1,800
1980	1,578,000	2,387,181	2,858	835	4,475,762	1,750
1981	2,604,000	2,285,149	2,779	826	4,614,590	1,670
1982	2,419,040	2,424,660	2,608	930	4,709,225	1,800
1983	2,419,040	2,792,116	2,849	980	4,955,775	1,800
1984	2,800,000	3,035,191	2,830	1,073	4,962,191	1,900
1985	3,862,000	3,596,011	2,907	1,237	5,187,118	2,100

FROM: Department of Education, Summary Book for 1985-86.
Based on data available as of March 3, 1987

Creation of the GSL program policy. In 1965, when Congress enacted the Higher Education Act, it was responding to three significant issues. In addition to providing institutional assistance to help with the large increases in the numbers of students eligible to attend college, the Act was designed to provide financial assistance to help low-income individuals cope with increases in the costs of attending college. It established Educational Opportunity grants for students from low-income families as a way to ensure that these students had access to postsecondary education opportunities. As Carl Perkins said when the bill was debated on the floor, "These opportunity grants will, for the first time, make it possible for high school graduates from the lower income families to attend college as first-class students. The grants are directed to a segment of the population which thus far has been largely excluded from...higher education."

In addition, the Act established an interim program of federally guaranteed, reduced-interest, student loans [the FISL program which is now being phased out; no new loans are being made] and it stimulated and assisted the establishment of similar State guaranteed student loan programs [the State Guaranty Agency program]. The Guaranteed Student Loan Program was intended to serve students from middle income families who might not qualify for existing but limited aid provided under the National Defense Education Act or the new educational opportunity grants. As Representative John Anderson said when the bill was debated on the floor, "I am pleased with the expansion of existing student loan programs... These programs have proven...to be quite successful and are fiscally sound. However, their scope is limited. Present programs are restricted to only the neediest students. A more comprehensive program that would cover all who have a legitimate need is badly needed...The HEA of 1965 will make this possible."

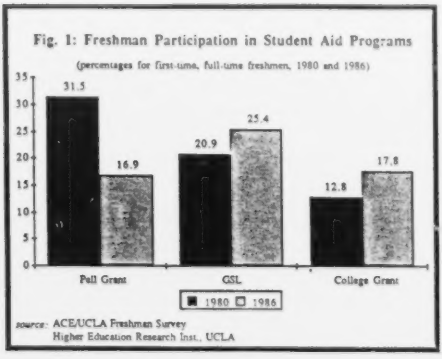
Congresswoman Edith Green, who was the principal author of this legislation concurred with Anderson: The Guaranteed Student Loan program "...is designed primarily for those students who come from middle-income families---those students who have not up to this time been able to obtain loans under the National Defense Education Act."

And, if one examines other statements and committee reports, it is clear that the Congress intended to help improve student access to postsecondary education by creating a two-pronged approach: a loan program to provide assistance to middle-income families and a grant program to help low-income families. Further, it was the intent of the Congress that these two initiatives act in tandem, and not in isolation.

Changes in the GSL Program Policy. In the 22 years since the dual grant/loan policy was established, there have been changes, stimulated by economic and ideological forces. One significant change was enactment of the Middle Income Student Assistance Act in 1978 which expanded participation in the GSL program by eliminating any determination of need. However, since 1981 there has been a significant reduction of middle-income participation in the GSL program. The 1981 Omnibus Budget Reconciliation Act restricted eligibility for students whose annual family income was $30,000 or higher; students from these families had to undergo a needs test, and in 1986, the law was changed again to require that all regular GSL borrowers undergo a needs test. The effect of these two provisions has been to significantly restrict the regular GSL eligibility of students from middle-income families. This fact, coupled with continued postsecondary cost increases and no significant growth in the size of Pell Grant awards, has resulted in increasing numbers of students from low-income families taking out loans.

Figures 2-5 provide data to illustrate this change in reliance on Pell Grants. These data, taken from the files of UCLA's Higher Education Research Institute reveal some significant trends in student financial aid between 1978 and 1985. While student reliance on parental support has remained fairly steady, there has been a sharp drop in the proportion of freshman receiving Pell Grants (from 31.5 to 19.9 percent), and a corresponding rise in freshman reliance on Guaranteed Student Loans (up to 23.0 percent in 1985, from 10.4 percent in 1978).

FIGURE 2



FIGURES 3-5

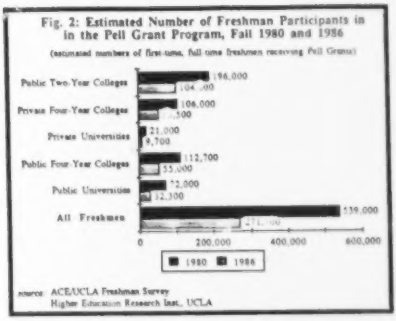


Fig. 2: Estimated Number of Freshman Participants in in the Pell Grant Program, Fall 1980 and 1986
(estimated numbers of first-time, full-time freshmen receiving Pell Grants)
Public Two-Year Colleges
196,000
Private Four-Year Colleges
106,000
Private Universities
21,000
9,700
Public Four-Year Colleges
112,700
55,000
Public Universities
72,000
32,300
All Freshmen
539,000
0
200,000
400,000
600,000
1980
1986
source: ACE/UCLA Freshman Survey
Higher Education Research Inst., UCLA

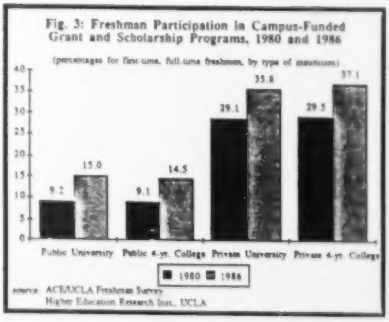


Fig. 3: Freshman Participation in Campus-Funded Grant and Scholarship Programs, 1980 and 1986
(percentages for first-time, full-time freshmen, by type of institution)
9.2
15.0
9.1
14.5
29.1
35.8
29.5
37.1
Public University
Public 4-yr. College
Private University
Private 4-yr. College
1980
1986
source: ACE/UCLA Freshman Survey
Higher Education Research Inst., UCLA

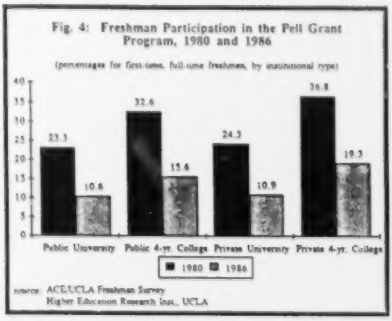


Fig. 4: Freshman Participation in the Pell Grant Program, 1980 and 1986
(percentages for first-time, full-time freshmen, by institutional type)
23.3
10.6
32.6
15.6
24.3
10.9
36.8
19.3
Public University
Public 4-yr. College
Private University
Private 4-yr. College
1980
1986
source: ACE/UCLA Freshman Survey
Higher Education Research Inst., UCLA

Similarly, a recent study tracking the impact of changes in Federal student aid at private Historically Black Colleges reveals that in 1979-80, of the total aid received by students at United Negro College Fund institutions, 42.2 percent was from Pell Grants and 3.8 percent was from GSLs. In contrast, in 1984-85, at the schools studied, the percent of Pell Grant aid had declined to 27.6 while reliance on GSL aid had increased by 849 percent, to 26.3 percent of total aid.

As a consequence of these changes, neither the original policy that established the GSL program nor the original population intended to be served by that program is dominant. Instead, more and more students, especially students who have very limited resources, are taking out loans. Stated another way, for students with limited resources, loans have become the primary means of financing a college education.

WHO IS IN DEFAULT?

- -

Contrary to popular perception, the typical defaulter is not a "deadbeat" who refuses to pay, but appears to be a dropout who is unable to pay. Defaulters tend to be first year students, from low income and minority backgrounds, with a small loan balance (90 percent less than $5,000) who did not complete much more than the first year, have borrowed only once, receive no or little assistance from parents in repaying, are likely to be unemployed when the loans comes due, and never make a first payment. The present default problem is thus predominantly structural. These costs are not likely to be recovered under the current terms of the program.

- -

When defaults are discussed, there is a tendency to view those who default as "deadbeats", and inevitably anecdotes of high-income professionals who have refused to repay their loans will be provided whenever the subject comes up for discussion. The popular conception of someone who defaults then is that of an individual who elects not to repay his or her obligation. But is this really the case with most defaulters? The data do not support this view.

Characteristics of student loan defaulters. Current research on the causes of student loan defaults is incomplete and does not provide a definitive understanding at this time. However, several state agencies have studied this issue and their data are instructive. According to the Pennsylvania Higher Education Assistance Agency (PHEAA), data from research reports and state data files show that very few borrowers default on loan balances of more than $5,000. In Virginia only 10.6 percent of all defaulters had loan balances greater than $5,000. In Pennsylvania 10.8 percent of all defalters had such higher loan balances. In California only 4.8 percent defaulted on loan balances of $5,000 or more. In Vermont 80 percent of the defaulters had obligations of $3,000 or less. In New York the average defaulted loan was $3,183 and in Illinois it was almost $2,900. The Department of Education has recently estimated that the average FY86 defaulted loan was $3260. Clearly the loans on which most borrowers default are small balance obligations.

Perhaps more helpful in understanding who defaults are studies of borrower characteristics that consistently show that students from very low-income families have a high probability of defaulting. For example, about a third of the Virginia and Pennsylvania defaulters reported incomes of less that $5,000 upon receipt of a loan. Moreover, 6.3 percent of the Virginia and 20.3 percent of the Pennsylvania defaulters reported no income when they applied for a loan. These state findings are consistent with a national sample of defaulting borrowers which revealed that 12.1 percent had no family incomes and 28.6 percent had incomes under $5,000.

There is also a very high correlation between a borrower's unemployment and defaulting on a loan. According to a 1984 study by the New York State Higher Education Service Corporation, 66 percent of those in default were unemployed at the time their loans came due. Data from the New York Agency also revealed a strong inverse relationship between default and the number of years spent in school.

Borrowers who last borrowed as freshmen, including students enrolled in one year vocational programs, had the highest default rate, 14.2 percent, and this rate dropped steadily as class level rose. These borrowers received little assistance in repaying their loans from their families. However, students who repaid their loans reported receiving family assistance that was three times as large as the proportion of defaulters who reported such help.

Similar data are found in the recent study by the California Student Aid Commission. Specifically, students who borrow only in the first year have a higher probability of defaulting on loans, and most defaulters have borrowed only once. Moreover, California's defaulters consistently have lower family incomes than repayers. For example, 66 percent of all defaulters had family incomes of less than $10,000 when they took out their first loans.

The California study also reported that while students from all ethnic minority groups borrowed more frequently than whites, black students were the most frequent borrowers. And Wilms and his colleagues in a 1987 study of California institutions (Whose Fault is Default?) reported that black students have the highest probability of defaulting. Wilms et al also reported that dropping out was the single most potent predictor of default status.

Collectively these findings indicate that a significant number of students who default are members of ethnic minority groups and come from low-income families who are unable to help these students finance their educational costs. Many of these students do not complete the program of study they selected; they drop-out and find employment difficult to obtain. Therefore, the finding by the Virginia Education Loan Authority that a significant portion of these students never make the first payment on their loan is not surprising. Based on the findings of the several studies cited above, it seems reasonable to estimate that no less than one out of every three defaulting borrowers comes from an extremely limited financial circumstance. When these studies were conducted in the early 1980s, borrowers with no incomes or with incomes of less than $5,00' represented at least one-fifth of the then current GSLP borrowing population. It is likely that this proportion has not diminished but increased since that time.

Structural Defaults. If that assumption holds, then it would not be unreasonable to ascribe some portion of the present default costs to the social costs of maintaining the GSL Program. The present evidence points to a shift in the population using the GSL program. As part of this shift, individuals with very limited resources and academic preparation are taking out loans, enrolling in an educational program, failing to complete that program, and subsequently finding themselves unemployed. These students represent what the Task Force participants have chosen to refer to as **Structural Defaulters.** If one can accept this line of reasoning, then it follows that the present default situation includes a significant portion of unrecoverable costs associated with structural defaults. What is needed to correct this situation is a restoration of the original policy intended by the Congress in 1965 and 1972, the concurrent and balanced access provided to all by the Pell Grant, the GSL Programs, and other title IV aid programs.

HOW CAN WE REDUCE DEFAULT COSTS?

The only way to accomplish a major reduction in the default rate is to restrict access to high-risk students until they have had a chance to demonstrate their ability to make satisfactory academic progress. However, this would result in a denial of educational access for such students, unless substantially higher appropriations for Pell Grants and SEOGs are assured for them, as well as increased funding for special service programs which encourage their retention.

The default rate can be reduced by eliminating those students most likely to default. Prohibiting lower income and minority group students in their first year of postsecondary education will lower default rates dramatically. Under the current limited availability of alternatives. Such an approach would effectively end the national policy of not having income as a barrier to attending college.

A better way to reduce default rate and not loan to those who are most likely to default is to return to the logic of the original congressional policy: grants for students from low-income families and loan assistance for students from middle-income families. If adequate Pell Grant assistance were provided to students from low-income family circumstances, these students would not need to borrow until they have had the chance to demonstrate their ability to make academic progress, and they would need to borrow considerably less. Consequently, default costs would be reduced.

Furthermore, reliance on such a policy would mean that the risk associated with making loans to students would be diminished since students who may be characterized as "high-risk borrowers" (i.e. students who are more likely to default on their loans) would be less likely to be in the loan pool. Therefore, in addition to reducing default cos.., this policy would contribute to reductions in program management costs.

The Task Force participants therefore recommend to Chairman Williams and the Subcommittee Members that Congress consider significantly increasing the maximum Pell Grant award for eligible students. Task Force participants noted that a more adequate Pell Grant award in the first or second year of study should be the sum of the maximum Pell Grant award plus the maximum GSL loan amount for the first year of school. Larger Pell Grant awards for the most needy students would reduce substantially the dependence of high risk, low-income students on borrowing and, for many, would eliminate borrowing altogether.

In addition, because of the important role that the Student Support Services program, popularly known as the TRIO programs, play in encouraging disadvantaged students to remain in school, the Task Force participants recommend significant increases in funding of TRIO programs and other supporting services. The participants call to the attention of Congress the data collected by the Department of Education that demonstrates that participation in the Student Support Services program more than doubles a disadvantaged student's likelihood of remaining in college. Similarly, the participants reaffirmed the important role played by the Supplmental Educational Opportunity Grant program and the State Student Incentive Grant program in ensuring access and choice and the need to increase funding for these programs as well.

Depending on how it was structured, the potential costs of such a Pell Grant proposal are high. A rough estimate indicates an increase over the present $4.26 billion of between $3 and $7 billion, depending, on how many students would receive increased grant awards and how far up the income spectrum the increased grant awards would be distributed. There would be, however, corresponding savings in the GSL programs' default costs as well as savings associated with reduced risk. Finally, there are program management initiatives, to be discussed below, that the Task Force participants believe will reduce program costs if enacted. The Task Force Members are aware that achieving the necessary funding levels required by this recommendation will be difficult. However, the costs associated with establishing effective social policy are more than offset by the positive contributions of those assisted to the nation's overall social and economic advancement.

PROGRAM MANAGEMENT INITIATIVES

In addition to proposing the restoration of original Congressional policy with respect to the purpose of the Pe'l and GSL programs, the Task Force participants reviewed numerous proposals that had been provided by a variety of sources. While it was the consensus that no amount of legislation or regulation would reduce the structural default rate arising from socio-economic factors, it is believed that some changes to the program, in addition to the 26 default prevention changes made by the 1986 Amendments, would be helpful in reducing defaults.

What follows is a list of the proposals that the Task Force participants agreed would have a positive effect on the GSL program if instituted.

Lenders

Require multiple disbursement of SLS loans as required in the regular GSL program.

Require lenders to report delinquent loans to credit bureaus at 90 days of delinquency.

Require that lenders release the second disbursement of eligible GSL loans no earlier than 1/3 of the way into the loan period and in accordance with a schedule provided to the lender by the educational institution.

Authorize lenders and servicers to place borrowers in deferment status based on information provided by borrowers in order to prevent technical default. If the borrower is subsequently found to be ineligible for a requested deferment, the borrower shall be returned to repayment and the incorrectly deferred principal payments and interest shall be capitalized.

Recommend that the Higher Education Secretariate Task Force on Defaults review current provisions for deferments on all title IV loans and report to the Congress recommendations to simplify the current system of deferments.

Clarify that no GSL may be made for an amount greater than the amount requested by the student and certified by the institution.

Recommend that lenders and services should be required to establish contact with the student during the grace period by mailing a form letter to the borrower to indicate how many more months the borrower has before the loan goes into repayment.

Borrowers

Require institutions to hold the first loan disbursement of a first year student until that individual has completed at least two weeks of classes. The institution may disburse up to 60 percent of other title IV student aid funds to students during this two week period for non-tuition and fee expenses.

Limit the number of GSLs to two in a calendar year, where the borrower is otherwise eligible.

Require that a student's eligibility for a GSL be determined before such student is eligible for a SLS or in the case of an independent student, a PLUS.

Amend Sections 484(d)(2) and (3) of the HEA, [Ability to Benefit] to require both testing and counseling for students who are admitted to a program under provisions contained in this section.

Modify title IV loan repayment provisions to prevent defaulters from entering repayment status at an interest rate that is less that the rate charged at the time of origination.

Prohibit the discharge of SLS/GSL/PLUS/Perkins Loans under Chapter 11 of the Bankruptcy Code, except under due hardship.

Require all GSL loan application forms to include the borrower's drivers license identification number.

Department of Education

Modify the Act's Limitation, Suspension and Termination (LS&T) provisions to include the following:

Prohibit any LS&T actions that are based solely on the default rate of the institution.

Require the Secretary to develop standards for the review of institutions that shall consider: the high-risk nature of the student body population and its historical propensity to default, the efforts of the institution to reduce defaults and the economic and employment condition of the area(s) served by the institution.

Require the Secretary and the guaranty agencies to apply standards that provide assurance of non-discrimination based on institutional type, control or tax status.

Allow the Secretary and the guaranty agency to impose fines on lenders and education institutions for willful errors in administering federal student assistance programs, in addition to requiring such errors to be cured or remedied. A schedule of such fines shall be defined in regulations and shall be based on the magnitude and the recurrence of such errors.

Require the Department to develop an annual plan for conducting program reviews of institutions, lenders, and guaranty agencies. This plan shall be published in the Federal Register for comment. The Department shall report to Congress the results of these reviews. A state guaranty agency shall focus its program review activity on institutions and lenders who, in the judgment of the guaranty agency, exhibit characteristics which indicate that they may be experiencing difficulty in administering the GSL program.

Require the Department to submit to Congress by December 31, 1988, a report on the effectiveness of the changes made to the Guaranteed Student Loan program since 1985, and then report to the Congress annually.

Amend Section 485B of the Higher Education Act to require the Secretary to develop the National Student Loan Data System, and provide an authorization of $7 million for its development. This system shall be developed in consultation with guaranty agencies and after 12 months of operation, the Department of Education and the Guaranty agencies shall determine whether it is feasible for guarantors to use the system for verification on all loans. According to the Boeing Report, use of this system would result in savings in excess of the developmental and operational costs.

Establish a set of common definitions for defining defaults and require that the definition be used by the Department of Education and participants in the program for all calculations and actions. Such definitions should cover gross and net calculations for both annual and cumulative default rates. Require that any presentation by the Department of Education of default rates or costs, particularly comparing different year data, use these consistent definitions and calculations.

Require the Department of Education to develop and implement a pilot program to study the feasibility of requiring borrowers to begin monthly repayments of $10.00 a month 30 days a ter the loan is disbursed for the in-school and grace periods.

This payment will be collected by the institution and then forwarded to the lender to be credited as a pre-payment to the student's loan principle.

The institution will monitor the students' repayment schedule and in the event that the student fails to make a timely repayment, the institution shall provide additional borrower counseling.

Guaranty Agencies

Authorize the state guaranty agencies to utilize skip tracing tools to trace defaulters, if necessary by limited federal preemption of state laws which prohibit access to such records. Available records shall include motor vehicle department records, state tax, labor, employee registers, unemployment commissions, and licensing bodies.

Require Guaranty Agencies periodically to provide institutions with a list of defaulted borrowers so that institutions have the opportunity to provide additional information that could help locate the student.

Require Guaranty Agencies to provide preclaims assistance.

Require the Guaranty Agency to remit collections owed to the Department of Education within 30 days of the receipt of the funds by the agency.

Institutions

Require the collection of additional information on borrowers, including family and personal references. The institution would also be required to recheck these references and such additional information at the time of the exit interview.

Recommend that each institution conduct an entrance interview for all first time borrowers before the first check is disbursed. At this time, the student should sign a "rights and responibilities" contract, and the institution should encourage that each student re-sign the "rights and responsibilities" contract during the exit interview. Counsel students in this interview that loans are to be used only as a last resort to financing their education.

Authorize institutions to withold the academic and financial aid transcripts of borrowers who default on any title IV loan.

Require institutions to withold the second and subsequent disbursements of a student loan until after the student has enrolled for that term or period for which that portion of the loan is intended.

Allow institutions to cancel or reduce the disbursement of the second installment of a GSL for students who receive additional financial aid from other sources. Such funds shall be credited to the students' loan principle in the form of a prepayment.

Require that no institution be certified or recertified for program eligibility in title IV of the Higher Education Act if such institution has had its accreditation withdrawn, revoked, or otherwise terminated for cause during the prior 12 months; or has withdrawn from accreditation voluntarily while under a show cause or suspension order during the prior 12 months.

Other

Request that the General Accounting Office, in its upcoming study of the effectiveness of the IRS check-off provisions, study whether a requirement should be imposed that employers be authorized to collect loans through garnishment proceedings after notification by the IRS, and the administrative problems and effectiveness of such a requirement.

Recommend to the House Committee on Ways and Means and the Senate Finance Committee that the IRS income tax offset program for defaulted student loans be made a permanent provision in the law.

Deny title IV eligibility to any institution which uses non-employee personnel working on a commissioned basis to recruit students.

Amend Section 491 of the Higher Education Act to require the Advisory Committee on Student Financial Assistance to review the provisions regarding disclosure and borrower debt counseling provisions in law and report to the Congress regarding not only the effectiveness of these provisions but also ways to simplify the requirements for disclosure.

TRAINING

In addition to the program management initiatives discussed above, the Task Force participants believe that the Department of Education is not providing sufficient training to individuals who work with title IV programs. The participants are aware that the Department requested additional funds in its most recent budget but only as part of its total Salary and Expenses budget. Unfortunately, these funds were not provided. The participants note the numerous changes that have been made in the law by OBRA, COBRA, the 1986 HEA Reauthorization, and the HEA Technical Amendments of 1987. These changes have added significantly to the level of complexity of administering the student aid programs. Therefore, the participants urge the Congress to enact a provision that would authorize specific funds for training of financial aid administrators, lenders, departmental personnel, including regional personnel, and others who work with title IV of the HEA. The participants believe this action would be helpful to efforts to reduce defaults.

DEFINITION OF DEFAULT

Finally, the use of different indices or measures of default is confusing to Task Force participants, to those who work with the Student Aid programs, and to the general public. The Department of Education has reported defaults using several different indices. Their gross cumulative default rate reflects the total of all defaulted loans divided by the total of all loans that have entered repayment. The Department also uses a net default index which adjusts the cumulative rate to reflect subsequent federal and state collections on loans that are in default. Most recently, the Department has created a cohort default rate which will reflect the number of loans which were in default in two succeeding years divided by the number of loans which entered repayment status in the first of the two years being used. In addressing the question of how the student loan default rate should be defined, many observers have suggested adopting a definition enabling a better comparison between student loan defaults and other types of loans. It is likely that several measures of default will be helpful, and the participants urge the Congress to adopt a consistent set of definitions that describe precisely how defaults must be calculated so they can be uniformly used by all program participants, and which will also provide information about the effects of efforts to reduce defaults.

CLOSING NOTE

In closing, Task Force Participants again caution against a belief that a major decrease can made in student loan default rates as long as loans are a substantial source of financing for large numbers of the highest risk students from disadvantaged and minority populations. The experience of institutions with the NDSL loan program and who serve a predominantly disadvantaged student clientele shows substantial difficulties in getting rates down even with tough due diligence practices.

The experience to date indicates that precisely for those for whom the benefits of education are the greatest are those who, if there is no alternative to taking a loan, the likelihood of default is also the greatest. Strict and tough management of

pre-loan counseling and of collections can not change the characteristics of the populations which have the greatest difficulty in paying off a loan.

The social policy of equalizing educational opportunity by making financial help available to students whose families can not afford to send them to college will always require the greater risk of supporting students who will not successfully complete their work. The costs associated with those risks are no greater than the costs of losing the capacity of those who do succeed and make a return on the investment in their education. As much as one third of our future workforce will be minorities. Disadvantaged white students added to this third means that upwards of 40 percent or more of the age groups out of which we must get a college trained workforce will be similar to those now showing the higher default rates. The nation will have to get these groups well educated for its own good. If they have to borrow to finance their education, default rates will rise. If alternatives to loans are available for financing their education then the volume of loans in these high default prone populations will decline as will the cost to the government of loan defaults. These considerations are behind our recommendation on increasing the pell grant award to a level for first year students which makes loans unnecessary.

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